

Message Text

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC PRIORITY 3006

C O N F I D E N T I A L L O N D O N 1 1 0 5 1

E.O. LL652: GDS

TAGS: ENRG, UK

SUBJECT: NORTH SEA OIL

REF: STATE 168231

1. FOLLOWING IS TEXT OF DIPLOMATIC NOTE WE ARE CONSIDERING GIVING TO FCO. WOULD APPRECIATE COMMENT SOONEST.

2. BEGIN QUOTE: THE AMBASSADOR OF THE UNITED STATES OF AMERICA PRESENTS HIS COMPLIMENTS TO HIS EXCELLENCY THE SECRETARY OF STATE FOR FOREIGN AND COMMONWEALTH AFFAIRS AND HAS THE HONOR TO REFER TO THE PETROLEUM AND SUBMARINE PIPELINES BILL NOW BEING CONSIDERED BY PARLIAMENT. THE AMBASSADOR WISHES TO BRING THE FOLLOWING COMMENTS TO THE ATTENTION OF HER MAJESTY'S GOVERNMENT.

3. THE BILL TO WHICH THE AMBASSADOR REFERS HAS GIVEN RISE TO CONSIDERABLE CONCERN AMONG THE AMERICAN COMPANIES ENGAGED IN NORTH SEA OIL EXPLORATION AND DEVELOPMENT, AND THE EMBASSY SHARES MANY OF THE COMPANIES' CONCERNS REGARDING ITS POTENTIAL EFFECTS. THE OIL COMPANIES ACK-
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NOWLEDGE USEFUL ANGEL IN THE DRAFT BILL AFTER IT WAS

DISCUSSED WITH THEM, BUT DO NOT THINK THAT IN SOME CASES THESE CHANGES GO FAR ENOUGH. THE MAIN POINT OF THE COMPANIES' CONCERN IS THAT SEVERAL PROVISIONS OF THE BILL WOULD CHANGE THE CONDITIONS OF THEIR EXISTING LICENSES. THESE PROVISIONS RELATE PARTICULARLY TO THE POWERS OF THE SECRETARY OF STATE FOR ENERGY WITH RESPECT TO EXPLORATION DEVELOPMENT AND DEPLETION. AS THE EMBASSY UNDERSTANDS THE BILL, THE SECRETARY OF STATE COULD, FOR INSTANCE, REQUIRE LICENSEES TO UNDERTAKE EXPLORATORY OR DEVELOPMENT DRILLING AGAINST THEIR WISHES AND JUDGMENT OR TO SLOW DOWN PRODUCTION, AND THESE POWERS COULD BE EXERCISED AT FINANCIAL LOSS TO THEM, UNDER PENALTY OF LOSS OF LICENSE. LICENSEES HAVE EXPENDED LARGE SUMS ON EXPLORATION AND DEVELOPMENT ON THE BASIS OF EXISTING LICENSES; THE TERMS OF THESE LICENSES WOULD BE CHANGED AS A RESULT OF THE BILL, AND THERE IS A POTENTIAL FOR FINANCIAL LOSS, EITHER IN IMPLEMENTING THE SECRETARY OF STATE'S ECONOMIC DECISIONS OR BY LOSS OF LICENSE THROUGH FAILURE TO DO SO. THE NET EFFECT APPEARS TO BE THE REVISION OF LICENSES TO THE FINANCIAL DISADVANTAGE OF THE LICENSEES.

4. IT ALSO MAY BE NOTED THAT BRITISH REPRESENTATIVES (LIKE UNITED STATES REPRESENTATIVES) HAVE EXPRESSED THE VIEW IN UNITED NATIONS FORA FREQUENTLY IN RECENT YEARS THAT INTERNATIONAL INVESTMENT AGREEMENTS SHOULD BE OBSERVED. THE EMBASSY QUESTIONS WHETHER THE UNILATERAL REVISION OF THESE LICENSES, POTENTIALLY WITH LOSS TO THE LICENSEE, IS CONSISTENT WITH THIS VIEW.

5. FINALLY, THE EMBASSY NOTES THAT THE COMPANIES INVOLVED ANTICIPATE THAT THE BILL IN ITS PRESENT FORM WOULD FURTHER REDUCE THE SPEED OF DEVELOPMENT OF NORTH SEA OIL RESOURCES. THIS WOULD BE A MATTER OF CONCERN TO THE UNITED STATES GOVERNMENT AT A TIME WHEN WE BELIEVE THE DEVELOPMENT OF NEW SOURCES OF ENERGY SHOULD BE STRESSED.

6. WE RECOGNIZE THAT THE GOVERNMENT HAS TAKEN ACCOUNT OF SOME OF THE VIEWS OF THE COMPANIES AND HAS MADE A NUMBER OF SIGNIFICANT AMENDMENTS TO THE BILL. WE HOPE AND

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EXPECT THAT THE GOVERNMENT WILL CONTINUE TO TAKE ACCOUNT OF THE EXPERIENCE AND ADVICE OF THE COMPANIES, AND THAT THE BILL, WHEN IT BECOMES LAW, WILL BE ADMINISTERED IN SUCH A WAY THAT THE PACE OF DEVELOPMENT IN THE NORTH SEA WILL NOT BE DIMINISHED. END QUOTE.

RICHARDSON

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